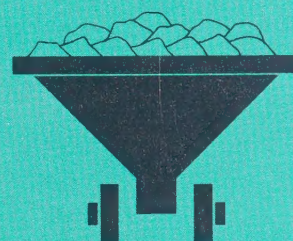
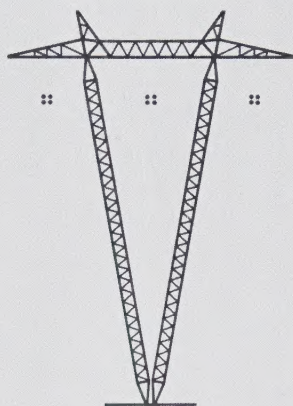


AR29

Annual Report 1970





Officers

Chairman:
ROBERT D. MULHOLLAND

President & Chief Executive Officer:
WILLIAM D. MULHOLLAND

Vice-President & General Manager:
M. F. NICHOLSON

Vice-President:
H. W. MACDONELL, Q.C.

Vice-President:
R. C. BERRY, C.A.

Vice-President:
H. L. SNYDER, P. Eng.

Comptroller:
W. E. BRADFORD, C.G.A.

Secretary:
G. R. DEVEY, C.A.

Treasurer:
M. C. BURNES, C.A.

Directors

ROBERT D. ARMSTRONG,
Toronto, Ontario
President, Rio Algom Mines Limited

*HENRY BORDEN, S.M., C.M.G., Q.C.
Toronto, Ontario
Former Chairman, British Newfoundland Corporation Limited

THE HON. MAURICE BOURGET, P.C.,
Lévis, Quebec
Member of the Senate of Canada

BERNARD D. BROEKER,
Bethlehem, Pa., U.S.A.
Executive Vice-President, Bethlehem Steel Corporation

PAUL DESMARAIS,
Montreal, Quebec
Chairman and Chief Executive Officer
Power Corporation of Canada Limited

*SIR VAL DUNCAN, O.B.E.,
London, England
Chairman and Chief Executive,
The Rio Tinto-Zinc Corporation Limited

G. PETER FLECK,
New York, U.S.A.
Chairman, New Court Securities Corporation

LEWIS W. FOY,
Bethlehem, Pa., U.S.A.
President, Bethlehem Steel Corporation

J. GEORGES-PICOT, K.B.E.,
Paris, France
Chairman of the Board and Managing Director,
Compagnie Financière de Suez et de l'Union Parisienne

J.-P. GIGNAC, Eng.,
Montreal, Quebec
President & General Manager,
Sidbec and Dominion Steel and Coal Corporation Limited

*SAM HARRIS,
New York, U.S.A.
Senior Partner, Fried, Frank, Harris, Shriver & Jacobson

J. H. MOWBRAY JONES, D. Eng.,
Montreal, Quebec
Director, Bank of Montreal

*ROBERT D. MULHOLLAND,
Montreal, Quebec
Vice-Chairman, Bank of Montreal

*WILLIAM D. MULHOLLAND,
Montreal, Quebec
President & Chief Executive Officer,
British Newfoundland Corporation
Limited and Churchill Falls (Labrador) Corporation Limited;
Chairman, British Newfoundland Exploration Limited

*M. F. NICHOLSON,
Montreal, Quebec
Vice-President & General Manager,
British Newfoundland Corporation Limited;
President, British Newfoundland Exploration Limited;
Chairman, Twin Falls Power Corporation Limited

GORDON F. PUSHIE,
St. John's, Newfoundland
Industrial Consultant

EDMUND L. DE ROTHSCHILD, T.D.,
London, England
Chairman, N. M. Rothschild & Sons Limited

H. GREVILLE SMITH, C.B.E.,
Montreal, Quebec
President, Canadian International Investment Trust Limited

ARTHUR S. TORREY,
Montreal, Quebec
Honorary Chairman, Pitfield, Mackay, Ross & Company Limited

*SIR MARK TURNER,
London, England
Deputy Chairman, Kleinwort Benson Ltd. and
The Rio Tinto-Zinc Corporation Limited

**Member of the Executive Committee*

REGISTERED OFFICE
1 Viking Road, St. John's, Newfoundland

EXECUTIVE OFFICE
One Westmount Square, Montreal 216, Quebec

TRANSFER AGENT AND REGISTRAR
The Royal Trust Company
St. John's, Newfoundland; Montreal, Quebec; Toronto, Ontario

SHARES LISTED
Montreal Stock Exchange
Toronto Stock Exchange

*On peut obtenir un exemplaire français de ce rapport auprès du service
des Relations publiques, British Newfoundland Corporation Limited,
Un, Westmount Square, Montréal 216 (Québec).*

ANNUAL GENERAL MEETING

The Company will hold its Annual General Meeting on
Thursday, April 29, 1971, at 11:00 a.m., Eastern
Daylight Saving Time, in the Salon Jolliet, The Queen
Elizabeth Hotel, Montreal, Quebec.

...from the President



W. D. MULHOLLAND
*President & Chief Executive
Officer, Brinco*

As pressing as some of our immediate problems were in 1970, we endeavored to look beyond them to the future development of the Company. This entailed, in the first instance, some organizational changes. To a greater extent perhaps than with most companies, such changes may be expected to be a fairly common occurrence for some time to come. The life cycle of a project comprises several distinct phases—conceptual, planning and engineering, construction and operation. As the transition is made from one phase to the next, organizational changes are essential and normal. As might be expected, multiple projects, each in a different phase, require an unusually flexible and adaptable organization staffed by high grade people. We are extremely fortunate in this respect.

Notwithstanding that 1970 was the biggest and most critical year of the Churchill Falls Project, and that we began the year under some handicaps, we drew heavily upon our reserves of strength in the middle management ranks, giving a number of these executives substantially increased responsibility. As a result, while the 1970 program was carried out in a highly satisfactory manner and the ground lost as a result of the 1969 railway stoppage recovered, we were able, before the year was out, to direct substantial time and effort of the senior management toward planning for the future activities of the Company.

* * *

More often than any other question I am asked what Brinco plans to do after the Churchill Falls project. Usually such a question tends to assume a geographic context; that is, our future is seen solely in terms of our extensive mineral and water power concessions. Without in any way intending to minimize the importance to us of these rights and obligations, I see our future as guided to a degree by the capabilities of our people. We have an integrated project planning, control and management organization, including many highly sophisticated specialists, which is able to hold its own with any similar team in the world. We also have a young, dedicated exploration team of whom we are very proud. Not only because of the human values involved, but also for very practical reasons, we prefer to utilize this organization, which has served your Company with great distinction, to the limit of its considerable capabilities. Those of us with responsibility for management accordingly tend to look first for avenues of growth which will permit us to lead from this strength. This is, of course, not in the least inconsistent with further resource development in our concession areas. On the other hand, the clear import of such a policy is a scope of activity which is not limited geographically.

Last year saw a number of occasions when our geologists were called upon to investigate properties or operations outside of our concession areas. This activity is continuing on a somewhat increased scale in 1971 and, for the first time, we expect to locate a Brinex team in Western Canada to carry out a program which has been under study for several months.

In Labrador, our exploration work will be considerably more concentrated than has been the rule in the past as attention is focussed upon prospects revealed by earlier regional programs.



H. W. MACDONELL, Q.C.
Vice-President, Brinco
 A graduate of Carleton University in Ottawa and of Osgoode Hall Law School, Toronto, he was a partner in the Toronto law firm of Fasken and Calvin before joining Brinco in 1970.



H. L. SNYDER
Vice-President, Brinco
 A McGill graduate in civil engineering he became Manager of Construction for Churchill Falls in 1964 and Project Manager in 1968. He is also Executive Vice-President of CFLCo.



M. F. NICHOLSON
Vice-President, Brinco
 Associated with the mining industry since 1946 when he joined the Consolidated Zinc Corporation in England, he came to Brinco in 1964 and has been closely involved with Brinex operations in Newfoundland and Labrador.



R. C. BERRY
Vice-President, Brinco
 He attended McGill and is a member of the Quebec and Ontario Institutes of Chartered Accountants. He was a vice-president of Trans-Canada Pipelines and later a partner of Peat, Marwick, Mitchell before joining Brinco in 1970.

In Newfoundland, we shall be completing this year an extensive regional program in the Halls Bay area which will account for most of our exploration activity there during the coming season.

Net exploration expenditures in Labrador and Newfoundland are expected to be down in 1971, partly because of the completion of non-recurring programs, such as last year's aerial survey.

We have done a great deal of work on the Lower Churchill River and plans looking to the development of the Gull Island site are well advanced. We are at the point now when attention should be given to the necessary commercial and financial studies. This is impractical, however, until the Government of Canada acts to resolve the present uncertainty over the tax system.

In the meantime, our engineers have been engaged in preliminary surveys of other rivers in Labrador with the object of assessing their power potential and relative economic position. This work, difficult under the best conditions, is severely handicapped by the lack of adequate mapping over most of the area. This is something that is taken for granted in many parts of the country. Unfortunately, we must do much of this work ourselves in order to obtain the required standard of accuracy. This is expensive and time-consuming. Nevertheless, we are taking steps to improve our ability to supply electric power on reasonable notice to any enterprise in Labrador which requires it. At the same time we are gathering the basic knowledge necessary to plan for the orderly and efficient development of the region's extensive hydraulic resources.

Recently, your Company concluded an agreement which will enable us to acquire a majority interest in a company formed to undertake an investigation of the hydro-electric potential in the Iskut-Stikine area of the Province of British Columbia. Accordingly, as an initial step, a field program is being planned for this summer as part of a study of the feasibility of an industrially-related power development. This would be an important step in opening up a remote region to development of its extensive natural resources.

* * *

For some time the Company has had under study the question of the construction in Canada of a facility for the isotopic enrichment of uranium, utilizing the gaseous diffusion process. The enrichment process is an important element in the nuclear fuel cycle for certain types of power reactors in wide use throughout the world.

Uranium contains two isotopes—uranium-235 and uranium-238—though in widely differing proportions. Uranium-238 accounts for more than 99 per cent of the uranium content while the less abundant U-235 accounts for only 0.71 per cent. The U-235 isotope is the all-important factor making uranium an effective fuel for electric generating plants. While some nuclear reactors operate on natural uranium by using a heavy water moderator, most reactors for nuclear power plants now in operation or under construction throughout the Western World will be of the light water type requiring a higher concentration of U-235. Reactors requiring augmented or "enriched" fuel are expected to account for approximately 90 per cent of the Western World's nuclear power plants by the late 1970's.

(continued on page 4)



W. E. BRADFORD
Vice-President, CFLCo
A Certified General Accountant and a Commerce graduate of Sir George Williams University, he joined CFLCo in 1967 as Project Controller. He is now Comptroller for the Brinco Group companies.



P. A. T. KEEPING
Vice-President, CFLCo
He was associated with RTZ projects in Britain, South Africa and Australia before joining CFLCo in 1966. As head of the Financial Planning staff, he played an important role in the Churchill Falls financing.



R. D. BOIVIN
CFLCo Project Manager
Appointed to present position Nov. 1, 1970, he is a graduate of the Haileybury, Ont., Institute of Mining. He helped build the Quebec North Shore & Labrador Railway and many other projects in Canada, Australia and New Zealand before joining CFLCo in 1968.



DR. A. P. BEAVAN
Vice-President, Brinex
A graduate geologist and engineer from Queen's University and a Ph.D., Princeton, he joined Brinco in 1953 and supervised the geological mapping and exploration of Brinco concessions in Newfoundland and Labrador. He is now Exploration Consultant to Brinex.

Several processes for increasing the U-235 content to between 2 and 3.5 per cent—the percentages required for light water reactors—have proved workable. At present, however, only the gaseous diffusion process has been demonstrated to be reliable and economic as a process for uranium enrichment in large-scale, high-volume applications.

Every indication points to a critical shortage of nuclear fuel in a few years unless steps are taken at once to augment existing free-world enrichment capacity. We believe that a strong *prima facie* case can be made for the feasibility of such a facility in Canada. A final conclusion, however, can only be reached after more detailed study and investigation in a number of areas, including both gaseous diffusion and alternate process production technology, which will require prior official sanction.

In our view, the question of locating such a facility in Canada should certainly not be allowed to resolve itself by default. While it is easy to overstress the importance of projects in which one is involved, we sincerely believe that this decision will be one of great importance to Canada. Accordingly, we have asked the Government of Canada if it would permit the location of such a facility in Canada and if it would support diplomatically our initiative in launching such an undertaking.

In view of the very important questions involved of national and international security, of relations with other nations and of national policy in other areas, it is unthinkable that we should undertake this project without the wholehearted approval and support of our Government. Subject, of course, to a favorable response from the Government of Canada and to our ultimate judgment as to the feasibility of the project, we would propose to take the lead in conducting the complex commercial negotiations and in organizing, planning, constructing and managing the project.

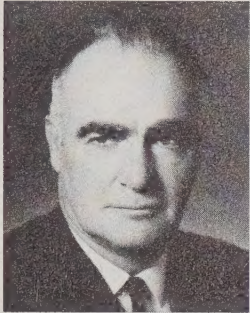
We recognize that it is premature to form a judgment as to the precise ownership structure of the project and would at the proper time approach this question with an open mind. We do believe, however, that this project will be dependent to an extraordinary degree upon international co-operation for its success and that, accordingly, participation in the ownership by entities domiciled outside Canada should be encouraged.

A major part, and perhaps all, of the initial capacity of the proposed facility would be reserved for performing enrichment services on a tolling basis. Similarly, it would be expected that a major part, or all, of the initial capacity would be committed under long-term agreements.

By way of a rough order of magnitude figure, the cost of an enrichment facility of moderate size would approximate that of the Churchill Falls Project. Its requirements for electrical power would exceed 2,000 megawatts. We have considered several possible sites in Canada for such a facility but are not yet prepared to form a conclusion as to a particular location nor is it likely that we shall do so for some time.

* * *

I commented last year upon the broad significance to the Company of the Government's White Paper containing its proposals for restructuring the tax



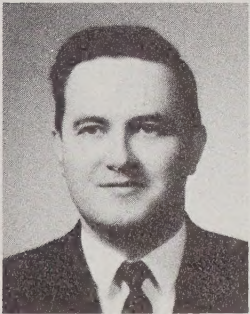
E. P. GRAHAM
Vice-President, Brinex

A graduate of Queen's University in mining engineering, he worked for various mines throughout Canada before joining Brinex as Manager, Whales Back Division. In 1969 he transferred to Montreal in charge of Brinex Operations.



DR. P. H. GRIMLEY
Vice-President, Brinex

A Ph.D. (London, England) in mining geology, he has worked in Britain, Africa, West Pakistan, Antarctica and Argentina. He joined Brinex in 1966, later becoming Chief Geologist, Labrador. Since Jan. 1971 he has been in charge of all Exploration.



E. G. SQUIRES
Director Administrative Staff

From Corner Brook, Nfld., he has had extensive experience in industrial relations in resource industries. He was manager of the Company's head office in St. John's, then CFLCo manager on site at Churchill Falls before assuming his present duties.



H. R. SNYDER
Executive Assistant to the President

The son of a Canadian mining engineer, he graduated as a geologist from the University of Witwatersrand. After extensive experience he attended the Harvard Graduate School of Business Administration, joined Brinco in 1970.

system. As indicated at that time, the Company submitted briefs to the Parliamentary Committees considering the White Paper. Together with my colleagues in the management of the Company, I appeared before the Standing Committee of the House of Commons on Finance, Trade and Economic Affairs and before the Standing Senate Committee on Banking, Trade and Commerce. We received courteous and attentive hearings from both Committees and the reports of the Committees which have now been tabled, show substantial appreciation of the problems referred to in our briefs.

Regarding investor-owned utilities, the House of Commons Committee recognized that these utilities have a valid objection to the proposal to deny tax credits to shareholders. The Minister of Finance proposed to the Committee an alternative procedure which would have reduced the rebates to the Provinces under the Public Utilities Income Tax Transfer Act. This alternative would pose serious problems for the Company and CFLCo and we promptly made representations to both Committees of Parliament and to the Minister of Finance with respect thereto. The House of Commons Committee in its report recognized that the arrangement proposed by the Minister of Finance would not cover situations where long-term power contracts contemplated continuance of the existing tax system and recommended that special Federal-Provincial attention be given to ensure a just result.

We pointed out in last year's Report that the proposed treatment of dividends in relation to capital cost allowances was especially prejudicial to long-lived projects involving heavy capital investment. The House of Commons Committee has expressed the view that Canadian corporate level tax incentives (depletion, capital cost allowance, etc.) should flow through to Canadian resident shareholders.

The Senate Committee took quite a different approach to the White Paper in rejecting the integration proposals and suggesting a tax credit system. If such proposals were adopted, many of the problems on which we have made representations would not arise.

We believe that there is now a much better appreciation of the problems which we set forth in our briefs and to the Parliamentary Committees. It is unfortunate that uncertainty will continue to exist until the Government's proposals to Parliament are acted upon. Nevertheless, we are thankful that the procedure adopted by the Government has given us and others an opportunity to present our views and hope that any new tax legislation will not contain provisions impairing the ability of your Company to develop additional power resources.

* * *

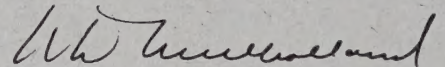
You will see that this year's report to shareholders is accompanied by a small supplement "The Land God Gave to Cain". So many people have asked us not only about the Churchill Falls Project but also about the fascinating land in which it is located that we thought we should find a way to tell you not only a little about this land but how we feel about it. The Labrador of the caribou herds and wolf packs and of the firebush and black spruce forest is important to us. It is just as much a part of the Churchill Falls Project as the underground chambers and the huge earth-moving machinery.

(continued on page 6)

I wish I could tell you that we are building the largest power project in the Western World without cutting down a single tree or frightening a single nesting bird; I can't. I can tell you, however, that we take great pains to anticipate the effects which our actions will have and to minimize them. Things are not the same as they were before we came, but it is still easy to catch a mess of three or four-pound speckled trout in the Twin Falls reservoir—it's been there now for nearly a decade—and, as the photographs in the accompanying booklet suggest, to catch an occasional glimpse of the wild creatures with whom we share this country.

I would like to draw your attention especially to the back cover. This is a young bald eagle photographed when he was about three months old. He was born last summer not far from where the Lobstick dyke construction was going on. There was some excitement in our organization when we first learned that the union of a pair of bald eagles nesting in the area had been blessed by an eaglet. Bulletins from nestside were soon as eagerly awaited at the head office as the production figures. After numerous conferences and consultations with ornithologists, an expedition was mounted to take the youngster's official portrait. With an impressive display of stealth and agility, photographer Mike Slade took the picture and withdrew without disturbing the happy family. This success led us to carry on with the idea of bringing to you a view of Labrador which is perhaps a little different than what you might have expected. We hope that you will share some of our enthusiasm for this remarkable and unappreciated land.

In closing, I should like to thank my colleagues, men and women, in the Brinco Group for their staunch support in our mutual endeavors. As always their unquenchable spirit, loyalty and professional excellence prompt my profound admiration.



WILLIAM D. MULHOLLAND,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Montreal, March 29, 1971.

BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY

Consolidated Balance Sheet December 31, 1970

Assets	1970	1969
Current assets:		
Cash and short-term deposits	\$ 6,680,249	\$ 5,406,440
Marketable securities, at cost (market value \$194,000)	197,660	197,660
Accounts receivable (including \$886 from affiliate)	1,529,692	1,494,971
Special refundable tax	—	95,484
Supplies and prepaid expenses	482,674	512,896
Total current assets	8,890,275	7,707,451
Investment in Churchill Falls (Labrador) Corporation Limited (notes 1 & 2)	50,680,426	50,426,566
Land, buildings and equipment, at cost less \$3,518,441 accumulated depreciation	1,668,890	2,190,225
Preproduction expenditures less \$2,695,155 written off	782,504	1,300,732
Expenditures on Lower Churchill River project	2,656,229	2,351,250
Expenditures on natural resources, rights and concessions less \$98,563 written off	120,787	45,729
Organization and financing expenses	2,427,246	2,427,246
	<u>\$67,226,357</u>	<u>\$66,449,199</u>
Liabilities		
Current liabilities:		
Accounts payable (including \$29,036 to unconsolidated subsidiary)	\$ 353,686	\$ 533,525
Accrued liabilities	384,638	390,398
Mining taxes payable	88,500	114,000
Total current liabilities	826,824	1,037,923
Shareholders' equity:		
Capital stock (note 3)	66,152,221	65,362,444
Retained earnings (note 2)	247,312	48,832
	<u>66,399,533</u>	<u>65,411,276</u>
Commitments and contingent liabilities (note 4)	<u>\$67,226,357</u>	<u>\$66,449,199</u>

The accompanying notes are an integral part of the above consolidated balance sheet and should be read in conjunction therewith.

On behalf of the Board:

WILLIAM D. MULHOLLAND, Director

M. F. NICHOLSON, Director

BRITISH NEWFOUNDLAND CORPORATION LIMITED AND WHOLLY OWNED SUBSIDIARY

Consolidated Statement of Earnings and Retained Earnings for the year ended December 31, 1970

	1970	1969
Sales:		
Sales of copper concentrates (note 5).....	\$ 5,907,728	\$ 6,025,735
Other sales.....	26,790	25,591
	<u>5,934,518</u>	<u>6,051,326</u>
Operating and administrative expenses.....	3,687,496	3,078,653
Depreciation and preproduction expenditures written off.....	1,247,672	1,279,281
Exploration expenditures.....	1,551,307	1,234,196
Mining taxes.....	84,697	107,862
	<u>6,571,172</u>	<u>5,699,992</u>
Operating profit (loss) for the year.....	(636,654)	351,334
Income from investments.....	581,274	401,035
	<u>(55,380)</u>	<u>752,369</u>
Equity in net earnings of unconsolidated subsidiary.....	253,860	243,527
	<u>198,480</u>	<u>995,896</u>
Earnings before income taxes and extraordinary items.....	198,480	995,896
Provision for income taxes (note 6).....	65,788	—
	<u>132,692</u>	<u>995,896</u>
Earnings before extraordinary items (note 7).....	132,692	995,896
Reduction in income taxes due to loss carry forward.....	65,788	—
	<u>198,480</u>	<u>995,896</u>
Net earnings for the year (note 7).....	198,480	995,896
Retained earnings at beginning of year.....	48,832	3,685,837
	<u>247,312</u>	<u>4,681,733</u>
Net exploration expenditures as at December 31, 1968 written off.....	—	(4,573,086)
Reduction in equity in retained earnings of subsidiary due to change in minority interest.....	—	(59,815)
Retained earnings at end of year.....	<u>\$ 247,312</u>	<u>\$ 48,832</u>

The accompanying notes are an integral part of the above consolidated statement of earnings and retained earnings and should be read in conjunction therewith.

BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY

Consolidated Statement of Source and Application of Funds
for the year ended December 31, 1970

	1970	1969
Source of funds:		
From current operations:		
Net earnings (loss) before equity in		
net earnings of unconsolidated subsidiary	\$ (55,380)	\$ 752,369
Depreciation and preproduction expenditures written off	1,247,672	1,279,281
	<u>1,192,292</u>	<u>2,031,650</u>
Issue of capital stock	789,777	80,410
	<u>1,982,069</u>	<u>2,112,060</u>
Application of funds:		
Expenditures on Lower Churchill River project	304,979	1,958,996
Expenditures on natural resources, rights and concessions	75,058	—
Land, buildings and equipment — net	208,109	398,975
Organization and financing expenses	—	2,703
	<u>588,146</u>	<u>2,360,674</u>
Increase (decrease) in working capital	\$ 1,393,923	\$ (248,614)

The accompanying notes are an integral part of the above consolidated statement of source and application of funds and should be read in conjunction therewith.

BRITISH NEWFOUNDLAND CORPORATION LIMITED AND WHOLLY OWNED SUBSIDIARY

Notes to the Consolidated Financial Statements as at December 31, 1970

(1) Principles of Consolidation:

The consolidated financial statements of British Newfoundland Corporation Limited include the accounts of its wholly owned subsidiary British Newfoundland Exploration Limited ("Brinex").

The Company holds 56.96% of the issued share capital of Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") and Churchill Falls in turn owns 33⅓% of the share capital of Twin Falls Power Corporation Limited which shares represent voting control of that company.

In the opinion of the directors, the assets and liabilities and operations of Churchill Falls are so dissimilar to those of the Company, that a consolidation of its accounts with those of the Company does not produce financial statements which are as meaningful and informative as the separate financial statements of the Company and Churchill Falls. The investment in Churchill Falls is, however, carried on an equity basis.

(2) Investment in Subsidiary:

	Shares at cost	Company's share of earnings since acquisition	Total
Churchill Falls (Labrador) Corporation Limited.	\$49,646,797	\$1,033,629	\$50,680,426

A proportion of the Company's shareholding in Churchill Falls is deposited under a Voting Trust Agreement between the Company and Quebec Hydro-Electric Commission.

The covenants of the debt instruments of Churchill Falls prohibit that company from paying cash dividends prior to completion of the Churchill Falls Project and place restrictions on the payment of cash dividends thereafter.

(3) Capital Stock:

(a) Common shares without nominal or par value authorized and issued as at December 31, 1970 were:

	Shares	Amount
Authorized.	25,000,000	—
Issued and fully paid.	22,903,985	\$66,152,221

(b) During the year, the following shares were issued:

	Shares	Amount
— Under the 1970 Stock Option Plan (note 3(c))	10,333	\$ 38,232
— Under an agreement with a director and officer	100,000	417,000
— Under options granted on October 10, 1968, to then directors and officers . . .	66,500	314,545
— Under an option granted August 24, 1966, to a director and officer	5,000	20,000
	<u>181,833</u>	<u>\$ 789,777</u>

(c) During 1970, 500,000 common shares were set aside for issuance pursuant to the provisions of the 1970 Stock Option Plan approved at the annual shareholders' meeting in May 1970. As at December 31, 1970, there were 178,000 shares on which options had not been granted as follows:

Shares set aside.	500,000
Options granted at \$3.70 exercisable on or before May 6, 1975, (195,000 to directors and officers) . .	<u>332,000</u>
	168,000
Options lapsed during the year	<u>10,000</u>
	<u>178,000</u>

(d) Options outstanding as at December 31, 1970:

Under the 1970 Stock Option Plan, 311,667 shares (195,000 to directors and officers) at \$3.70 per share exercisable on or before May 6, 1975.

Under options granted October 10, 1968, 40,500 shares (2,000 to directors and officers) at \$4.73 per share exercisable for a period of five years from October 10, 1968.

(4) Commitments and Contingent Liabilities:

- (a) In 1953 the Government of Newfoundland and the Company entered into an agreement ("Principal Agreement") whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland.

Under the terms of the Principal Agreement, as amended, the Company is obligated to pay to the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of the Company and its subsidiary companies excluding Churchill Falls (Labrador) Corporation Limited, resulting from the operation of the concessions and rights granted by the Principal Agreement.

- (b) The liability of Brinex under its pension plan for past service is being paid by annual instalments over 20 years. The payment for past service in 1970 was \$1,500 and the total unfunded liability as at December 31, 1970, for past service was \$20,500.

(5) Sales of Copper Concentrates:

Sales of copper concentrates include an amount of \$2,105,776 in respect of copper concentrates delivered during the year for which final settlement had not been received. These shipments have been valued at an estimated copper price of 40¢ per pound less costs of smelting, refining and freight.

(6) Income Taxes:

Brinex claims for tax purposes exploration, depreciation and preproduction expenditures sufficient to offset income that would otherwise be taxable. At December 31, 1970, depreciation and amounts written off since the commencement of operations exceeded allowances claimed for tax purposes by \$4,588,000.

(7) Earnings per Share:

	1970	1969
Earnings before extraordinary items	\$.006	\$.044
Net earnings for the year009	.044

(8) Company Directors' and Officers' Remuneration:

	Number	Aggregate Remuneration			
		Company	Brinex	Churchill Falls	Total
Directors	20	\$27,600	\$3,950	\$12,250	\$ 43,800
Officers	9	47,532	—	71,476	119,008

There were three officers who were also directors.

Four of the officers did not receive remuneration as officers from any of the above companies.

BRITISH NEWFOUNDLAND CORPORATION LIMITED
AND WHOLLY OWNED SUBSIDIARY

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of British Newfoundland Corporation Limited and wholly owned subsidiary as of December 31, 1970, and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies at December 31, 1970, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Montreal, Quebec
February 5, 1971



Balance Sheet as at December 31, 1970

Assets	1970	1969
Current assets:		
Cash and short-term deposits.....	\$ 17,883,591	\$ 43,935,702
Accounts receivable (including \$210,559 from affiliates).....	4,345,304	5,374,358
Special refundable tax.....	—	21,713
Supplies and prepaid expenses.....	1,316,510	492,106
Total current assets.....	23,545,405	49,823,879
Funds held by trustee.....	—	1,400,000
Investment in shares of Twin Falls Power Corporation Limited (note 1).....	2,676,233	2,682,959
Churchill Falls power project, at cost.....	447,470,756	242,571,510
Less accumulated depreciation.....	5,747,456	5,012,656
	441,723,300	237,558,854
Debt discount and financing expenses.....	4,432,318	3,182,002
	<u>\$472,377,256</u>	<u>\$294,647,694</u>
Liabilities		
Current liabilities:		
Accounts payable.....	\$ 27,237,791	\$ 18,272,848
Accrued liabilities.....	3,034,415	2,941,180
Total current liabilities.....	30,272,206	21,214,028
Long-term debt (note 2).....	357,209,956	188,984,488
Shareholders' equity:		
Capital stock (note 3).....	82,899,992	82,899,992
Retained earnings (note 4).....	1,995,102	1,549,186
	84,895,094	84,449,178
Commitments and contingent liabilities (note 5)	<u>\$472,377,256</u>	<u>\$294,647,694</u>

The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.

On behalf of the Board:

WILLIAM D. MULHOLLAND, Director

R. A. BOYD, Director



**Statement of Earnings and Retained Earnings
for the year ended December 31, 1970**

	1970	1969
Revenue from Twin Falls Power Corporation Limited:		
Rental of rights and facilities	\$ 734,800	\$ 725,000
Construction management fee	—	318
Gross revenue	734,800	725,318
Newfoundland rental (note 5(b))	72,358	70,217
Depreciation	734,800	725,318
	807,158	795,535
Operating profit (loss) for the year	(72,358)	(70,217)
Equity in net earnings of Twin Falls Power Corporation Limited for the year	518,274	497,788
Net earnings for the year	445,916	427,571
Retained earnings at beginning of year	1,549,186	1,121,615
Retained earnings at end of year	<u>\$ 1,995,102</u>	<u>\$ 1,549,186</u>

The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.



**Statement of Source and Application of Funds
for the year ended December 31, 1970**

Source of funds:	1970	1969
From current operations:		
Net earnings (loss) before equity in net earnings of Twin Falls Power Corporation Limited.....	\$ (72,358)	\$ (70,217)
Depreciation.....	734,800	725,318
	<u>662,442</u>	<u>655,101</u>
Reduction in funds held by trustee.....	1,400,000	(1,400,000)
Dividends from Twin Falls Power Corporation Limited.....	525,000	562,500
Issue of capital stock.....	—	6
Issue of long-term debt:		
First Mortgage Bonds Series A.....	160,975,468	77,109,488
First Mortgage Bonds Series B.....	7,250,000	11,875,000
General Mortgage Bonds.....	—	75,000,000
	<u>170,812,910</u>	<u>163,802,095</u>
Application of funds:		
Development of Churchill Falls power project.....	204,899,246	128,772,181
Debt discount and financing expenses.....	1,250,316	1,576,219
	<u>206,149,562</u>	<u>130,348,400</u>
Increase (decrease) in working capital.....	<u>\$ (35,336,652)</u>	<u>\$ 33,453,695</u>

The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.



Notes to the Financial Statements as at December 31, 1970

(1) Investment in Shares of Twin Falls Power Corporation Limited:

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") holds voting control of Twin Falls Power Corporation Limited ("Twin Falls") through its ownership of all the Class A shares which carry four votes per share but these shares represent only one third of the shareholders' interest in Twin Falls and, therefore, its assets and liabilities have not been included in Churchill Falls' financial statements. The investment in Twin Falls is, however, carried on an equity basis.

Original cost.....		\$ 2,500,000
Equity in retained earnings at beginning of year.....	\$ 182,959	
Equity in net earnings for the year.....	518,274	
	<u>701,233</u>	
Dividends for the year.....	525,000	176,233
		<u>\$ 2,676,233</u>

(2) Long-Term Debt:

	Authorized	Issued and Outstanding	
First Mortgage Bonds:			
7¾% Series A due December 15, 2007.....	\$500,000,000 (U.S.)	\$225,450,000 (U.S.)	\$238,084,956
7½% Series B due December 15, 2007.....	50,000,000	—	19,125,000
General Mortgage Bonds:			
7½% due three years after latest maturity of any			
First Mortgage Bonds.....	100,000,000	—	100,000,000
			<u>\$357,209,956</u>

The First Mortgage Bonds Series A are carried in the balance sheet at the proceeds realized in Canadian dollars.

Bond Purchase Agreements dated May 15, 1969, have been signed covering the purchase of all the authorized First Mortgage Bonds.

The First Mortgage Bonds are repayable in semi-annual instalments commencing two years after completion of the Churchill Falls power project ("Project") sufficient to retire them fully by maturity.

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for a sinking fund to be applied in redemption of the bonds, commencing after completion of the Project amounting to 2% of the balance outstanding at the commencement of each year, payable in semi-annual instalments. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Churchill Falls has entered into an agreement dated May 15, 1969, with a consortium of Canadian banks, the terms of which provide for a credit not exceeding \$150,000,000 at any one time outstanding. No amounts may be drawn down under the agreement prior to January 1, 1972, and it is subject to certain other conditions.

(3) Capital Stock:

Common shares without nominal or par value authorized and issued as at December 31, 1970, were:

	Shares	Amount
Authorized.....	10,000,000	
Issued and fully paid.....	8,759,999	\$ 82,899,992

There are restrictions on the issue of further capital stock without the approval of the holders of at least 75% of the outstanding common shares.

(4) Dividend Restrictions:

The covenants of the debt instruments of Churchill Falls prohibit the payment of cash dividends by Churchill Falls prior to completion of the Project and place restrictions on the payment of cash dividends thereafter.



(5) Commitments and Contingent Liabilities:

- (a) At December 31, 1970, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$135,000,000.
- (b) Under the Terms of The Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto, Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).
- (c) Churchill Falls' liability under its pension plan for past service is being paid by annual instalments over 20 years. The payment for past service in 1970 was \$2,100 and the total unfunded liability for past service as at December 31, 1970, was \$27,900.

(6) Income Taxes:

Churchill Falls had no income subject to tax.

(7) Power Contract:

Quebec Hydro-Electric Commission and Churchill Falls have entered into a power contract dated May 12, 1969, providing for the purchase of substantially all the power from the Project for an initial period of approximately forty years with a renewal for a further period of twenty-five years.

(8) Company Directors' and Officers' Remuneration:

	Number	Aggregate Remuneration
Directors	14	\$ 21,517
Officers	9	123,804

There were three officers who were also directors.

Five of the officers did not receive remuneration as officers from Churchill Falls.



AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1970, and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1970, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Montreal, Que.
February 5, 1971

Report of Directors to Shareholders

The year 1970 was marked by considerable progress particularly in the construction of the Churchill Falls Project and in the moulding of a renewed senior management group following the tragic air accident which took place in November 1969.

While the organization has been busily engaged during the year in the development of hydro-electric power and in mining and exploration, management has also been reviewing other suitable development opportunities.

HYDRO-ELECTRIC POWER

Churchill Falls Project

The Annual Report of Churchill Falls (Labrador) Corporation Limited, which accompanies this report, contains financial and operating information concerning the Churchill Falls development and Twin Falls Power Corporation Limited.

Your Company has taken the major role in the equity financing of CFLCo through the formative years of the Churchill River power development and the building of the Twin Falls Plant. Brinco owns 57 per cent of the equity capital of CFLCo. The other shareholders in that corporation are the Newfoundland Government and the Quebec Hydro-Electric Commission. The latter, in addition, is the principal customer for the power.

1970 was a very successful construction year for the Churchill Falls Project. It was possible not only to regain the ground lost on 1969 due to the rail stoppage, but to reach a point where some aspects of the work were ahead of the program which overall continues on schedule. This success was partly attributable to the very good weather conditions during the construction season which extended longer into the autumn than is usual in Labrador. It was also due to the outstanding performance of the Project team and other personnel associated with the Project.

Everyone connected with the Churchill Falls development looks forward eagerly to the testing of the first two turbine/generator units which is expected to take place before the end of 1971, and to the first commercial delivery of power which is scheduled for May 1, 1972.

Final completion of the Project is presently scheduled for 1976.

Lower Churchill River Project

As referred to in previous Annual Reports, Brinco has been studying in detail the feasibility of a power site at Gull Island on the Lower Churchill River approximately 130 miles downstream from the Churchill Falls Project. To December 31, 1970, these studies have involved a total expenditure of approximately \$2.7 million. During 1970, detailed engineering studies of the power site were continued including additional drilling work and consideration of alternative designs for the dam, powerhouse and spillway structures.

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These studies, conducted by our own staff and our engineering consultants, have resulted in a conceptual design, and a definitive construction schedule and capital cost estimate.

Certain provisions in the Government's White Paper on Tax Reform published in November 1969, would if implemented have a substantially detrimental effect upon the Gull Island project. Your management has drawn the attention of the responsible authorities to the serious problems which would exist were the Government's proposals carried out in their present form and we believe our position is now well understood. The feasibility of this project will depend upon reaching satisfactory agreement for the sale of power which will have to be based upon an economic price to the consumer and at the same time, provide for a reasonable return to the Company and to shareholders. This, to a substantial extent, depends upon the impact of taxation on the project and it is not possible to proceed with a detailed study of economic feasibility nor can negotiations for the sale of power take place until the Federal Government's intentions on tax reform are known. Similarly, the necessary studies and planning for financing the project must be held in abeyance until this uncertainty is cleared away. Your Directors earnestly hope that this uncertainty will be resolved early in 1971 so that the further development of the hydro-electric resources of Labrador may proceed, bearing in mind the ever-increasing demand for electrical energy.

In the meantime, Brinco engineers have been conducting surveys of other rivers in the region and certain sites have been designated for more intensive investigation. The broad purposes of these studies are, first, to provide information to assist in planning for the orderly and efficient development of the region's extensive hydraulic resources and, second, to facilitate planning for continuity of the supply of power in Labrador as local requirements for energy grow — as they inevitably will.

MINING AND EXPLORATION

Financial Results of Brinex

Results of the operation of the Whales Back copper mine show mine operating profit of \$1,922,000 compared with \$2,283,000 in 1969. The reduction in profit resulted from a number of factors. Lower copper production was experienced due to higher dilution in the ore being drawn from above the 800-foot level, fewer tons milled due to harder grinding and a less free milling type ore being drawn from certain sections. Higher underground exploration and development costs were incurred in developing extensions and additions to the ore reserves at both Whales Back and Little Deer. London Metal Exchange copper prices, at which most of Brinex's copper concentrate is sold, rose dramatically from a level of 45 cents per pound at the end of 1967 to a peak of 80 cents per pound in the Spring of 1970 but fell sharply in the last six months to below 50 cents per pound at the end of the year. During the period of high prices, the Canadian Government required copper producers to sell a fixed percentage of their production at the Canadian price which was then lower. Current lower prices together with higher operating costs under changed conditions are expected to result in substantially reduced mine earnings in 1971.

The past year's exploration program involved the highest level of expenditure yet undertaken by Brinex. Exploration expenditures for the year 1970 amounted to \$1,551,000 and were charged entirely against income. This factor, together with depreciation and higher administrative costs, resulted in the net loss to Brinex of \$178,000, reflected in the consolidated accounts of the parent company.

Exploration

Exploration expenditures by Brinex during 1970 totalled \$1,551,000 compared with \$1,234,000 during 1969. In addition, expenditures of \$568,000 were made by joint venture partners.

A special feature of the 1970 exploration program in Labrador was the major, non-recurring airborne geophysical survey in central Labrador. This belt of country encompassing approximately 15,000 square miles, extends from Churchill Falls in the west to the Labrador coastline at Makkovik and is at present considered the most favorable for mineral search of all areas held by Brinex. Electro-magnetic, magnetic and radiometric measurements were taken over an aggregate of 31,300 line miles, covering approximately 7,500 square miles of the mineral belt. This survey was very substantial and will not be repeated. Expenditures on exploration in 1971 will be considerably below those incurred in 1970.

As a result of the correlation of the favorable data obtained from the airborne survey with work previously completed, it has been decided to concentrate work during the coming season upon the Moran Lake and Seal Lake areas. While these areas may seem small in relation to our total concessions they nevertheless cover more than 4,000 square miles. The participation by other firms in this work as partners is under consideration at the present time.

Exploration for uranium continued in the Makkovik area under a joint venture agreement with Urangesellschaft of West Germany. However, in view of the uncertainty created by the Federal Government's announced policy regarding foreign interests in uranium properties, drilling was suspended in May 1970. The availability of adequate supplies of low-priced uranium oxide, with the prospect of potentially large quantities of uranium from new discoveries in Australia, do not augur well for an early firming of prices for uranium oxide. During the coming season work will continue on our discoveries of uranium mineralization in the Makkovik region.

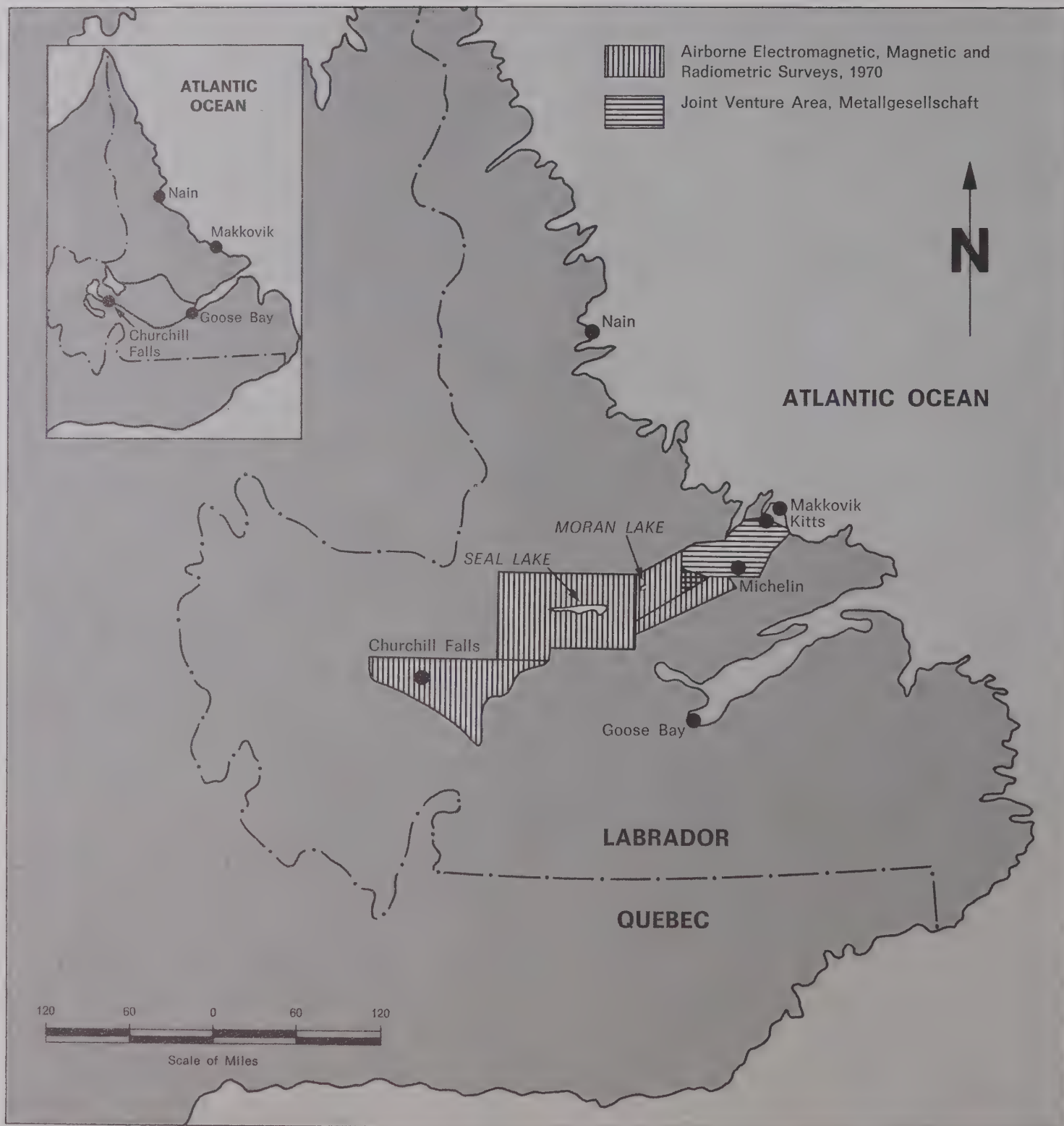
In Newfoundland, exploration continued in the Halls Bay area. The regional geochemical sampling program covering the entire Halls Bay Concession (986 square miles) has been completed.

Brinex is also planning to undertake exploration in other areas of Canada during 1971.

Mining

At the Whales Back Mine 690,972 tons of ore grading .81 per cent copper were mined and milled, and produced 20,381 dry tons of concentrate con-

(continued on page 23)



taining an estimated 10,262,676 pounds of copper. Mine and mill operating costs before depreciation and amortization averaged \$3.95 per ton of ore.

Development work in the Whales Back section continued below the 800-foot level and a current program of diamond drilling below the 1,100-foot horizon is designed to examine the possibility of additional mineable ore at depth. Recoverable ore reserves in the Whales Back orebody at year end were estimated at 1,000,000 tons grading 1 per cent copper. Development work at the adjoining Little Deer orebody, 3,000 feet away from Whales Back, has produced ore reserves of 170,000 tons at 2.3 per cent proven, and 40,000 tons at 3 per cent indicated.

The collective agreement between Brinex and United Steelworkers of America Local 6960, representing the workers at Whales Back, expired February 28, 1971. Negotiations for a new collective agreement are under way.

Operations at the plant were generally satisfactory and the excellent safety record was maintained.

CORPORATE DEVELOPMENTS

Changes in Board of Directors

As foreshadowed, the resignation of Mr. Henry Borden as Chairman was accepted with regret at the Annual Meeting held on May 6, 1970. Mr. Borden brought much strength and wisdom to the Brinco Group during extremely eventful years. He has served for seven years as a Director of which five years were as Chairman. He continues as a member of the Board of Directors and of the Executive Committee.

At the 1970 Annual Meeting, Mr. Robert D. Armstrong and Mr. Robert D. Mulholland were elected Directors and Mr. R. D. Mulholland was subsequently elected Chairman of the Board. Mr. Mulholland is Vice-Chairman of the Bank of Montreal and holds positions on the boards of a number of organizations and corporations in Canada.

Appointment of Officers

At the last Annual Meeting, the following appointments were announced:

- Mr. Robert C. Berry as Vice-President & Chief Financial Officer
- Mr. Harold L. Snyder as Vice-President
- Mr. William E. Bradford as Comptroller & Chief Accounting Officer

As of January 1, 1971, Dr. P. H. Grimley, formerly Chief Geologist, Labrador, was appointed a Vice-President of Brinex and has assumed the duties of Manager of Exploration.

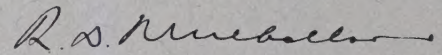
As of the same date, Dr. A. P. Beavan assumed new duties as Exploration Consultant to Brinco and will continue as a Vice-President of Brinex.

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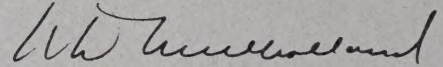
Stock Option Plan

At the Annual Meeting of Shareholders last May, a new stock option plan for management and senior staff was approved. This plan was subsequently accepted for listing by the appropriate stock exchanges and securities commissions. It provided for the allotment of 500,000 Common Shares of the Company to be issued under the provisions of the plan.

The Directors wish to express their thanks and appreciation to the staff serving the four companies of the Brinco Group who responded to the challenges of 1970 with vigor and enthusiasm.



Robert D. Mulholland,
CHAIRMAN



William D. Mulholland,
PRESIDENT

Montreal, March 4, 1971



